



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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Do Republicans Support Protecting the Medicare Surplus?

Dear Democratic Colleague,

Democrats are united on the question of saving the Medicare surplus, just as Democrats all agree we should save the Social Security surplus. President Bush and his Republican allies in Congress, however, are divided about the wisdom of protecting the Medicare trust fund surplus. They even disagree on whether a Medicare surplus exists.

Because it is now clear that the excessive Bush tax cut will invade the Medicare surplus in the current fiscal year, it is imperative for Republicans to make clear whether they believe this is a problem. If Republicans' position is that invading the Medicare surplus is acceptable, they should say so forthrightly. Alternatively, if they believe as Democrats do that the Medicare surplus should be protected, then they bear the responsibility to show how the problem can be fixed.

Congressional Republicans: The Medicare Surplus Is "Inviolable"

H.R. 2, which passed the House on February 13 by a vote of 407 to 2 with every Republican voting in favor, stipulated that both the Medicare and Social Security surpluses should be used exclusively for debt reduction, at least until Medicare and Social Security reform legislation is enacted. The Republican budget resolution explicitly protects both the Medicare and Social Security surpluses. Many Congressional Republicans still subscribe to this view. For instance, the July 11 *BNA Daily Tax Reporter* contained the following:

[Senate Majority Leader] Lott said Republicans would "have to look at the budget numbers as we go forward this year" to determine if offsets would be required to prevent lawmakers from dipping into the Social Security or Medicare trust funds...Also July 10, House Majority Leader Richard Armey (R-Texas) said... "We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that."

Bush Administration: The Medicare Surplus Is a “Hoax”

However, senior officials of the Bush Administration continue to argue, as they have all year, that “there is no Medicare surplus” [*A Blueprint for New Beginnings*, February 2001, page 13]—and that, ironically, it therefore is okay to spend it. For instance, in his recent Senate Budget Committee testimony, OMB Director Mitchell Daniels called the Medicare surplus “an artificial overage in the Medicare Part A trust fund” and “a hoax.” On July 8 on CNN, Director Daniels said:

This notion of a raid on Medicare... This is really another unfortunate and misleading statement. Medicare raids the treasury, not the other way around. It's the way it was set up...

White House spokesman Ari Fleischer has made the same argument, stating on July 2:

As for Medicare, it has long been the position of the Bush administration that there is no surplus in Medicare. And the reason for that is there's a shell game in Medicare...[T]he Medicare system is in deficit not surplus.

The Problem in 2001

Outside experts have become convinced that the tax cut, which made no allowance for the possibility that the economic slowdown might trim the surplus, is already eating into the Medicare trust fund surplus this year. Even Bush Administration officials now admit the surplus is shrinking. If, as we suspect, CBO revises down the 2001 surplus by about \$20 billion, the tax cut will invade the Medicare surplus by \$15 billion. We believe that this is a problem—a problem that would not have arisen if our alternative budget had been adopted.

Republicans would like to argue, as OMB Director Daniels has, that if this is a problem, it resulted from last year's large—Republican—increase in appropriated spending. This is incorrect. The spending increases voted last year already were in place when President Bush and the Congressional Republicans pushed through their tax cut. The invasion of the Medicare surplus directly results from the fact that their tax cut left no margin for error, even though Democrats warned about that risk.

The Bigger Problem—2002 and Beyond

A greater concern should be the unsustainable fiscal path on which the tax cut has put us. The tax cut will force an invasion of the Medicare surplus in each year from 2002 through 2007, even if the Congress abides by the unrealistic spending numbers in the Republican budget resolution and the Administration doesn't add to its \$18 billion interim request for defense funding. Factoring in a small downward revision of the projected surplus, the full defense buildup, inevitable spending for natural disasters, and extension of expiring tax provisions puts the budget into the Medicare surplus for the next ten years and into the Social Security surplus as well for much of that time.

As Democrats have argued all along, President Bush and Congressional Republicans never had a budget—they had only a tax agenda. The only way that they could get the numbers in their “budget” to add up was to omit many of the largest items and set those items that were included at implausible levels. The excessive Bush tax cut is and always has been a threat to long-term fiscal health. It will create problems for years to come. The only surprise is that the problems have appeared so soon.

Sincerely,

John M. Spratt
Ranking Democratic Member